

Message Text

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ACTION EUR-12

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FM AMEMBASSY MOSCOW
TO USDOC WASHDC PRIORITY
SECSTATE WASHDC PRIORITY 8148

C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 02642

USDOC FOR BEWT/TDAD/BOWIE

USDOC FOR BEWT/USSR/HEISS

STATE FOR EUR/SOV/EDGAR

E.O. 11652: GDS

TAGS: BTIO, UR

SUBJECT: SOVIETS DECLINE CURRENT PROPOSAL OF ICX
AVIATION FOR PURCHASE OF YAK-40 AIRFRAME

1. IN CONVERSATION FEBRUARY 16 WITH DALE LEWIS,
PRESIDENT, ICX AVIATION, USCO LEARNED THAT SOVIETS HAVE
DECLINED ICX'S OFFER TO PURCHASE YAK-40 AIRFRAMES FOR
REFITTING IN U.S. AND EVENTUAL SALE OF APPROX 80 PERCENT
U.S. FINAL AIRCRAFT (X-AVIA) TO THIRD COUNTRIES.
REASON SOVIETS GAVE FOR DECISION REPORTEDLY WAS BECAUSE
YAK-40 PRODUCTION LINE AT SARATOV FACILITY IS BEING SHUT
DOWN END DEC 1978.

2. LEWIS, WHOSE COMPANY HAS BEEN NEGOTIATING WITH
SOVIETS APPROX 2 YEARS (AT COST OF \$350,000) ON PROPOSAL
TO PURCHASE YAK-40 AIRFRAMES, WAS IN MOSCOW FOR FINAL
TALKS FEB 13-17. ACCORDING TO LEWIS, ICX PROPOSAL
WOULD HAVE MEANT ALMOST \$500 MILLION IN HARD CURRENCY
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EARNINGS TO USSR OVER PERIOD OF CONTRACT AND NET EXPORT
EARNINGS TO U.S. OF APPROX \$6.4 BILLION, INCLUDING
SUPPORT FOR FINISHED PRODUCT SOLD ABROAD.

3. DESPITE OBVIOUS BENEFITS TO SOVIETS, LEWIS WAS TOLD
BY FTO AVIAEKSPORT AND MINISTRY OF AVIATION INDUSTRY
OFFICIALS ON FEBRUARY 16 THAT IT WOULD NOT BE POSSIBLE
FOR DEAL TO GO THROUGH SINCE PRODUCTION OF YAK-40 ITSELF

WOULD BE STOPPED END DECEMBER 1978. BECAUSE OF LENGTH OF TIME REQUIRED FOR FAA CERTIFICATION OF AIRCRAFT IN U.S. AND FACT THAT OVER 140 SOVIET SUPPLIERS WOULD BE INVOLVED, PRODUCTION PEOPLE COULD NOT JUSTIFY HOLDING LINE AT SARATOV OPEN PAST YEAR END. LEWIS HIMSELF DOUBTED AN FAA DECISION COULD BE REACHED IN REQUIRED TIME FRAME.

4. LEWIS SAID THAT A VERY INTENSE DEBATE AMONG SOVIET FACTIONS PRO AND CON ON ICX PROPOSAL OCCURRED OVER PAST TWO WEEKS WITH PRODUCTION PEOPLE EVENTUALLY WINNING OUT OVER DESIGN AND SALES PEOPLE (REPORTEDLY SON OF YAK-40 DESIGNER YAKOVLEV WAS FULLY IN FAVOR OF PROPOSAL). SOVIETS INTIMATED TO LEWIS THAT ONLY WAY TO REVERSE DECISION WOULD BE BY PRESSURE FROM "VERY TOP."

5. NOT TO BE DEFEATED, LEWIS CAME BACK (DURING SAME MEETING) WITH AN ALTERNATIVE SUGGESTION TO PURCHASE YAK-40 PLANS AND NECESSARY TOOLING FOR AIRFRAME IN U.S. HE REPORTED THAT SOVIETS APPEARED EXTREMELY INTERESTED AND THAT HE (LEWIS) WOULD DO SOME COST ESTIMATES. IF ATTRACTIVE, HE WOULD PRESENT ANOTHER PROPOSAL.

6. ON FEBRUARY 17, AVIAEKSPORT CALLED LEWIS BACK IN AND TOLD HIM FLATLY THAT PREVIOUS DAY'S TURN-DOWN OF CONFIDENTIAL

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HIS PROPOSAL HAD BEEN CAUSED BY LACK OF PRODUCTION CAPACITY IN SARATOV. LEWIS SAID HE THEN OFFERED TO BUILD A PLANT FOR SOVIETS IN SARATOV TO CONTINUE PRODUCTION OF YAK-40 AIRFRAME. TO HIS SURPRISE, SOVIETS EXPRESSED KEEN INTEREST IN THIS IDEA AND TO HIS ADDED SUGGESTION THAT ICX MIGHT ALSO PURCHASE ALL CURRENT SUB-ASSEMBLIES FOR YAK-40 AIRFRAME AND SHIP THEM TO U.S. FOR ASSEMBLY.

7. IN ESSENCE, ICX PLANS REMAIN ALIVE BUT ARE LIMPING. THEY REMAIN, HOWEVER, OPEN FOR ADDITIONAL PROPOSALS AND NEGOTIATIONS BY SOVIETS. CRUCIAL FACTOR, ACCORDING TO LEWIS, WILL BE SPEED WITH WHICH FAA CERTIFICATION PROCEDURES CAN BE COMPLETED.

8. COMMENT: IN EMBASSY VIEW, ICX PROPOSAL WOULD SEEM TO HAVE GREAT DEAL OF MERIT SINCE IT WOULD, AMONG OTHER ECONOMIC BENEFITS, PROVIDE SOVIETS WITH OPPORTUNITY TO EXPORT A MANUFACTURED ITEM OF ACCEPTABLE QUALITY WHICH WOULD THEN BE USED IN U.S. AS BASIS FOR A LARGE-SCALE AIRCRAFT PRODUCTION PROJECT. AS INTERESTED WASHINGTON AGENCIES ARE AWARE, LEWIS'S PLANS WOULD CALL FOR IMPORTATION OF MORE THAN 1,800 YAK-40 AIRFRAMES OVER MULTI-

YEAR PERIOD FOR COMPLETE OUTFITTING STEM TO STERN WITH
U.S. AVIONICS EQUIPMENT, INCLUDING ALL INSTRUMENTATION,
COMMUNICATIONS AND ELECTRICAL CIRCUITS, AS WELL AS
INTERIOR FURNISHINGS AND APPOINTMENTS. ICX WOULD EXPECT
THEN TO SELL ABOUT EIGHTY PERCENT OF COMPLETED NEW AIR-
CRAFT -- TO BE KNOWN AS X-AVIA -- TO THIRD COUNTRIES.
WITH SPARE PARTS AND MAINTENANCE CONTRACTS, LEWIS ESTIMATE
THAT POSSIBLE NET EXPORTS GENERATED BY PROJECT OVER
NEXT DECADE OR SO WOULD BE OVER SIX BILLION DOLLARS.
LEWIS WILL OF COURSE BE IN TOUCH WITH APPROPRIATE
OFFICES IN WASHINGTON IN NEXT FEW DAYS AND WEEKS TO
DISCUSS PROBLEMS HE HAS ENCOUNTERED WITH SOVIETS AND
TO PRESS ANEW FOR FAA AGREEMENT TO MOVE AHEAD ON

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C O N F I D E N T I A L SECTION 02 OF 02 MOSCOW 02642

CERTIFICATION PROCEDURES FOR YAK-40. GIVEN WHAT
APPEAR TO BE GENUINE ECONOMIC AND TRADE BENEFITS WHICH
COULD ACCRUE TO U.S. FROM ICX PROPOSAL IF IT CAN BE
WORKED OUT WITH SOVIETS, EMBASSY URGES DEPARTMENT AND
OTHER APPROPRIATE USG AGENCIES SERIOUSLY TO CONSIDER
INFORMATION HE WILL BE PRESENTING. MATLOCK

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